Higher interest rate by SBI

2252. SHRI MURLI DEORA: Will the Minister of FINANCE be pleased to state:

(a) whether a Consortium of Banks led by SBI have been appropriating around 6 per cent of the budgeted provision for food subsidy by charging an interest of Rs. 10.95 per cent for food credit from Food Corporation of India while these banks are lending to Government at the rate of 4.5 per cent;

(b) if so, the reasons for this anomaly; and

(c) whether Government are set to approve a bond flotation from the FCI in the debt market and if so, the details thereof and by when the proposal is likely to be approved?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANDRAO VITHOBAADSUL): (a) and (b) Food Corporation of India (FCI) is the main agency for implementing the Food Procurement and Public Distribution Policy of the Government of India. The mechanism for financing these operations is through the consortium of Banks and the rate of interest charged by the consortium of Banks is determined on the basis of average prime lending rates of the five largest Banks in the consortium. Currently rate of interest charged 10.95%. Food credit is also the first charge on the lendable resources of Commercial Banks and is not credit extended on pure commercial considerations. Bank's subscription to Government bonds is partly due to statutory stipulation of SLR and Banks have to keep a part of their assets in SLR while competing for the same bonds with other institutions. Banks do not lend to the Government directly but Banks subscribe to the bonds floated by Government periodically. Being sovereign paper the rates are not strictly comparable with commercial rates.

(c) Discussions on the proposal to float bonds by Food Corporation of India are inconclusive at this stage.